NOTES TO THE NOVARTIS GROUP
CONSOLIDATED FINANCIAL STATEMENTS (Continued)

33. Significant Differences Between IAS and United States Generally Accepted Accounting Principles (US GAAP) (Continued)

3) Marketable securities (Continued)

The components of available-for-sale marketable securities under US GAAP at December 31, 2001 and 2000 are the following:

	Cost	Gross unrealized gains	Gross unrealized losses	Carrying value and estimated fair value
	(CHF millions)	(CHF millions)	(CHF millions)	(CHF millions)
As of December 31, 2001				
Equity securities	4,084	941	(458)	4,567
Debt securities	5,430	70	(108)	5,392
Total	**9,514**	**1,011**	**(566)**	**9,959**
As of December 31, 2000				
Equity securities	4,297	2,068	(569)	5,796
Debt securities	6,950	185	(158)	6,977
Total	**11,247**	**2,253**	**(727)**	**12,773**

During 2000, the Group disposed of the majority of its holding of bonds designated as held-to-maturity in order to recognize the gains related to these securities. The remaining bonds in this category were reclassified to the available-for-sale category of marketable securities. The majority of these transferred securities were then sold during the year. CHF 4,829 million and CHF 3,711 million of held-to-maturity bonds, at amortized cost, were sold and transferred to available-for-sale securities, respectively. CHF 466 million in gains were recognized upon the sale of the related securities. Unrealized losses of CHF 64 million were transferred to available-for-sale securities.

Prior to the introduction of IAS 39 from January 1, 2001, under IAS, unrealized holding gains on available-for-sale securities were not recognized in the income statement. Gross unrealized holding losses on available-for-sale securities were recorded in the other financial expense component of financial income, net.

Under US GAAP for all years presented, unrealized holding gains and losses on available-for-sale securities are recorded as a component of other comprehensive income.

Proceeds from sales of available-for-sale securities were CHF 9,482 million and CHF 21,007 million in 2001 and 2000, respectively. Gross realized gains were CHF 795 million and CHF 607 million on those sales in 2001 and 2000, respectively. Gross realized losses were CHF 170 million and CHF 291 million on those sales in 2001 and 2000, respectively. The cost used to determine the gain or loss on these sales was calculated using the weighted average method.

33. Significant Differences Between IAS and United States Generally Accepted Accounting Principles (US GAAP) (Continued)

3) Marketable securities (Continued)

The maturities of the available-for-sale debt securities included above at December 31, 2001 are as follows:

	2001
	(CHF millions)
Within one year	215
Over one year through five years	2,132
Over five years through ten years	1,924
Over ten years	1,121
Total	**5,392**

4) Derivative financial instruments

Prior to the adoption of IAS 39 from January 1, 2001, under IAS, the Group used the concept of portfolio valuation for derivative financial instruments. For each portfolio of similar instruments the net unrealized holding gain or loss was determined by netting unrealized holding gains and losses on each instrument in the portfolio. The Group's application of IAS 39 from January 1, 2001 is now consistent with US GAAP. Under US GAAP for all years presented, the Group marks all of its derivative financial instruments except those related to cash flow hedges that do not qualify for hedge accounting, to fair value on an individual basis through the income statement and thus their carrying value is equal to their fair value. This produced the following differences between IAS and US GAAP for periods prior to the adoption of IAS 39 on January 1, 2001:

Realized and unrealized gains and losses on equity options designated as a hedge of available-for-sale securities were deferred in other comprehensive income until the underlying security was disposed of, at which time they were included with the related capital gain or loss.

When a hedging instrument expired or was sold, or when a hedge no longer met the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remained in equity and was recognized when the committed or forecasted transaction was ultimately recognized in the income statement or when the underlying available-for-sale security was disposed of. However, if a committed or forecasted transaction was no longer expected to occur, the cumulative gain or loss that was reported in equity was immediately transferred to the income statement.

From January 1, 2001, the Group adopted SFAS 133 "Accounting for Derivative Instruments and Hedging Activities" which as applied by the Group is consistent with IAS 39 as regards accounting for cash flow hedges.

Total losses recognized in accordance with US GAAP on options settled in Novartis shares that require a net cash settlement were CHF 387 million for the year ended December 31, 2001 (2000: CHF 278 million of gains).

33. Significant Differences Between IAS and United States Generally Accepted Accounting Principles (US GAAP) (Continued)

5) Non-derivative financial instruments

The US GAAP carrying values are equivalent to the IAS carrying values for all non-derivative financial assets and liabilities, except for marketable securities at December 31, 2000 as described above.

Non-derivative financial assets consist of cash and cash equivalents, time deposits, and marketable securities. Non-derivative liabilities consist of commercial paper, bank or other short-term financial debts, and long-term debt.

The carrying amount of cash and cash equivalents, time deposits, commercial paper, and bank and other short-term financial debts approximates their estimated fair values due to the short-term nature of these instruments. The fair values of marketable securities are estimated based on listed market prices or broker or dealer price quotes. The fair value of long-term debt is estimated based on the current quoted market rates available for debt with similar terms and maturities.

The estimated fair values of the long and short-term financial debt are provided in notes 18 and 21 to the IAS consolidated financial statements.

6) Earnings per share

As discussed in item (g) above, in the past, the Group established a Novartis employee share participation foundation to assist the Group in meeting its obligations under various employee benefit plans and programs. This foundation supports existing, previously approved employee benefit plans.

For US GAAP purposes, the Group consolidates the Novartis employee share participation foundation. The cost of Novartis AG shares held by the foundation is shown as a reduction of shareholders' equity in the Group's balance sheet. Any dividend transactions between the Group and the foundation are eliminated, and the difference between the fair value of the shares on the date of contribution to the foundation and the fair values of the shares at December 31, is included in consolidated retained earnings. Shares held in the foundation are not considered outstanding in the computation of US GAAP earnings per share.

NOTES TO THE NOVARTIS GROUP
CONSOLIDATED FINANCIAL STATEMENTS (Continued)

33. Significant Differences Between IAS and United States Generally Accepted Accounting Principles (US GAAP) (Continued)

6) Earnings per share (Continued)

The consolidation of this entity has the following impact on basic and diluted earnings per share:

	2001	2000	1999
Net income attributable to shareholders under US GAAP (CHF millions)	**4,703**	**6,913**	**5,419**
Weighted average number of shares in issue under IAS	2,571,673,365	2,613,547,597	2,653,820,040
Weighted average treasury shares due to consolidation of the employee share participation foundation under US GAAP	(100,569,059)	(93,783,600)	(79,207,240)
Weighted average number of shares in issue under US GAAP	**2,471,104,306**	**2,519,763,997**	**2,574,612,800**
Basic earnings per share under US GAAP (expressed in CHF)	**1.90**	**2.74**	**2.10**

	2001	2000	1999
Net income attributable to shareholders under US GAAP (CHF millions)	**4,703**	**6,913**	**5,419**
Elimination of interest expense on convertible debt (net of tax effect)	20	20	18
Net income used to determine diluted earnings per share	**4,723**	**6,933**	**5,437**
Weighted average number of shares in issue under IAS	2,571,673,365	2,613,547,597	2,653,820,040
Adjustment for assumed conversion of convertible debt	9,478,158	8,838,879	8,614,154
Call options on Novartis shares	4,574,401		
Adjustment for other dilutive share options	1,010,963	982,560	559,080
Weighted average number of treasury shares due to consolidation of the employee share participation foundation under US GAAP	(100,569,059)	(93,783,600)	(79,207,240)
Weighted average number of shares for diluted earnings per share under US GAAP	**2,486,167,828**	**2,529,585,436**	**2,583,786,034**
Diluted earnings per share under US GAAP (expressed in CHF)	**1.90**	**2.74**	**2.10**

33. Significant Differences Between IAS and United States Generally Accepted Accounting Principles (US GAAP) (Continued)

7) Pro forma earnings per share

Statement of Financial Accounting Standards No. 123 "Accounting for Stock-Based Compensation" established accounting and disclosure requirements using a fair-value based method of accounting for share-based employee compensation. Had the Group accounted for share options in accordance with SFAS 123, net income and earnings per share would have been the pro forma amounts indicated below:

	2001	2000	1999
Net income under US GAAP (CHF in millions):			
As reported	4,703	6,913	5,419
Pro forma	4,664	6,884	5,396
Earnings per share (CHF):			
As reported:			
Basic	1.90	2.74	2.10
Diluted	1.90	2.74	2.10
Pro forma:			
Basic	1.89	2.73	2.10
Diluted	1.88	2.73	2.10

The weighted average assumptions used in determining fair value of option grants were as follows:

	2001	2000	1999
Dividend yield	1.2%	1.3%	1.6%
Expected volatility	24.0%	24.0%	23.0%
Risk-free interest rate	4.0%	4.0%	3.8%
Expected life	9 yrs	10 yrs	10 yrs

These pro forma effects may not be representative of future amounts since the estimated fair value of share options on the date of grant is amortized to expense over the vesting period and additional options may be granted in future years.

8) Deferred tax

The deferred tax asset less valuation allowance at December 31, 2001 and 2000 comprises CHF 2,206 million and CHF 2,221 million of current assets and CHF 1,029 million and CHF 1,044 million of non-current assets, respectively. The deferred tax liability at December 31, 2001 and 2000 comprises CHF 823 million and CHF 786 million of current liabilities and CHF 3,062 million and CHF 2,702 million of non-current liabilities, respectively.

33. Significant Differences Between IAS and United States Generally Accepted Accounting Principles (US GAAP) (Continued)

9) Employee benefit plans

The disclosures required by US GAAP are different from those provided under IAS. The following provides a reconciliation of benefit obligations, plan assets and funded status of the plans.

	Pension benefits			Other post-employment benefits		
	2001	2000	1999	2001	2000	1999
			(CHF millions)			
Plan assets at fair value:						
January 1	**25,426**	**25,454**	**24,456**			
Actual return on plan assets	(737)	2,949	1,429			
Foreign currency translation	49	(18)	655			
Employer contribution	109	73	98			
Employee contributions	33	39	36			
Plan amendments	(361)					
Settlement—Novartis Agribusiness		(1,851)				
Benefit payments	(1,158)	(1,220)	(1,220)			
Plan assets at December 31	**23,361**	**25,426**	**25,454**			
Benefit obligation:						
January 1	**17,662**	**21,304**	**21,926**	**660**	**655**	**614**
Service cost	359	467	543	15	11	13
Interest cost	825	857	784	52	48	42
Actuarial (gain) loss	1,379	(1,759)	(1,264)	169	(21)	(45)
Plan amendments	(437)		3	(2)	(1)	(11)
Settlement—Novartis Agribusiness		(1,909)				
Foreign currency translation	(14)	(78)	532	15	17	95
Benefit payments	(1,158)	(1,220)	(1,220)	(63)	(49)	(53)
December 31	**18,616**	**17,662**	**21,304**	**846**	**660**	**655**
Funded status	**4,745**	**7,764**	**4,150**	**(846)**	**(660)**	**(655)**
Unrecognized transition (asset)			(88)			
Unrecognized actuarial (gain) loss	632	(2,672)	411	(58)	(160)	(148)
December 31—Prepaid (accrued) benefit costs	**5,377**	**5,092**	**4,473**	**(904)**	**(820)**	**(803)**
Prepaid benefit costs	6,469	5,783	5,362			
Accrued benefit liability	(1,092)	(691)	(889)	(904)	(820)	(803)
December 31—Net amount recognized in the balance sheet	**5,377**	**5,092**	**4,473**	**(904)**	**(820)**	**(803)**
Benefit cost:						
Service cost	359	467	543	15	11	13
Interest cost	825	857	784	52	48	42
Expected return on plan assets	(1,517)	(1,583)	(1,505)			
Employee contributions	(33)	(39)	(36)			
Amortization of transition (asset)		(88)	(239)			
Amortization of actuarial (gain) loss	258	28	161	78	(15)	
Net periodic benefit (income) cost	**(108)**	**(358)**	**(292)**	**145**	**44**	**55**

NOTES TO THE NOVARTIS GROUP

CONSOLIDATED FINANCIAL STATEMENTS (Continued)

33. Significant Differences Between IAS and United States Generally Accepted Accounting Principles (US GAAP) (Continued)

9) Employee benefit plans (Continued)

	Pension benefits			Other post-employment benefits		
	2001	**2000**	**1999**	**2001**	**2000**	**1999**
	%	%	%	%	%	%
Weighted-average assumptions as at December 31:						
Discount rate	4.6	4.5	4.1	7.5	7.7	7.7
Rate of payroll indexation	2.8	2.8	2.8			
Expected return on plan assets	6.1	6.2	6.1			

In 2001 the Group recorded CHF 108 million of settlement gains associated with Group restructurings. In 2000 a net gain of CHF 52 million was recorded directly in shareholders' equity based on the settlement of its defined benefit pension plans attributable to Novartis Agribusiness.

The assumed health care cost trend rate at December 31, 2001 was 9.0% for those under age 65 and 9.0% for those over age 65, decreasing to 4.75% in 2006 and thereafter for both groups. The assumed health care cost trend rate at December 31, 2000 was 6.0% for those under age 65 and 6.0% for those over age 65, decreasing to 4.75% in 2006 and thereafter for both groups.

A one-percentage-point change in the assumed health care cost trend rates compared to those used for 2001 would have the following effects:

	1% point increase	**1% point decrease**
	(CHF millions)	(CHF millions)
Effects on total of service and interest cost components	10	(8)
Effect on post-employment benefit obligations	98	(85)

10) Comprehensive income

SFAS No. 130 "Reporting Comprehensive Income" established standards for the reporting and display of comprehensive income and its components. Comprehensive income includes net income and all changes in equity during a period that arise from non-owner sources, such as foreign currency items and

NOTES TO THE NOVARTIS GROUP
CONSOLIDATED FINANCIAL STATEMENTS (Continued)

33. Significant Differences Between IAS and United States Generally Accepted Accounting Principles (US GAAP) (Continued)

10) Comprehensive income (Continued)

unrealized gains and losses on securities available-for-sale. The additional disclosures required under US GAAP are as follows:

	2001	2000	1999
	(CHF millions)	(CHF millions)	(CHF millions)
Net income under US GAAP	**4,703**	**6,913**	**5,419**
Other comprehensive income:			
Foreign currency translation adjustment	(275)	(525)	2,579
Unrealized market value adjustment on available-for-sale securities (net of taxes of CHF 169 million, CHF 227 million and CHF 34 million, respectively)	(1,010)	1,137	287
Reclassification adjustment:			
Net realized gains on sales of securities (net of taxes of CHF (61) million, CHF 36 million and CHF 72 million, respectively)	564	(280)	(645)
Comprehensive income under US GAAP	**3,982**	**7,245**	**7,640**

11) Foreign currency translation

The Group has accounted for operations in highly inflationary economies in accordance with IAS 21 (revised) and IAS 29. The accounting under IAS 21 (revised) and IAS 29 complies with Item 18 of Form 20-F and is different from that required by US GAAP.

12) Effect of New Accounting Pronouncements: *International Accounting Standards*

The Group considers that there are no issued but not yet implemented IAS standards that will have a material effect on the Group's consolidated financial statements.

13) Effect of New Accounting Pronouncements: *US GAAP*

Statement of Financial Accounting Standards SFAS No. 141 on "Business Combinations"; SFAS 142 on "Goodwill and other Intangible Assets"; SFAS 143 on "Accounting for Asset Retirement Obligations" and SFAS 144 on the "Accounting for Impairment or Disposal of Long-Lived Assets" will be effective for periods beginning on or after January 1, 2002. The Group has not determined what, if any, effect these new standards will have on its consolidated financial statements.

Report of Independent Accountants on Financial Statement Schedule

To the Shareholders and Board of Directors
of the Novartis Group, Basel

Our audits of the consolidated financial statements referred to in our report dated January 31, 2002, appearing on page F-2 of this Form 20-F, also included an audit of the financial statement schedule listed in Item 19 of this Form 20-F. In our opinion, this financial statement schedule presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements.

PricewaterhouseCoopers AG

S. A. J. Bachmann J. P. Herron

Basel, January 31, 2002

Novartis Group

Schedule II—Valuation and qualifying accounts

(for the years ended December 31, 2001, 2000 and 1999)

	Balance at beginning of period	Additions	Deductions[1]	Balance at end of period
		(CHF millions)		
Descriptions:				
Year ended December 31, 2001:				
Provision for doubtful receivables	(248)	(146)	98	(296)
Provision for inventories	(386)	(606)	341	(651)
Allowance for deferred taxes	(237)	(31)	171	(97)
	(871)	**(783)**	**610**	**(1,044)**
Year ended December 31, 2000:				
Provision for doubtful receivables	(625)	(337)	714	(248)
Provision for inventories	(487)	(317)	418	(386)
Allowance for deferred taxes	(365)	(112)	240	(237)
	(1,477)	**(766)**	**1,372**	**(871)**
Year ended December 31, 1999:				
Provision for doubtful receivables	(455)	(308)	138	(625)
Provision for inventories	(390)	(434)	337	(487)
Allowance for deferred taxes	(214)	(179)	28	(365)
	(1,059)	**(921)**	**503**	**(1,477)**

(1) Represents amounts used for the purposes for which the accounts were created and reversal of amounts no longer required.

(This page has been left blank intentionally.)

(This page has been left blank intentionally.)

NOVARTIS

www.novartis.com